

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 7815**

**BILL NUMBER:** HB 2005

**NOTE PREPARED:** Apr 11, 2003

**BILL AMENDED:** Apr 10, 2003

**SUBJECT:** Assessment of Exempt Property.

**FIRST AUTHOR:** Rep. Frenz

**FIRST SPONSOR:** Sen. Zakas

**BILL STATUS:** 2<sup>nd</sup> Reading - 2<sup>nd</sup> House

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill eliminates most acreage limitations in the determination of land exemptions. It provides that land is exempt under certain circumstances for the retention and preservation of land and water (maximum of 500 acres) or if it is used for parking that serves an exempt building. For exemption of land purchased for construction of a building to be used for exempt purposes, the bill requires active pursuit of the building plan.

The bill requires identification in an exemption application of the use of each part of the property, and applies the predominant use test separately to each part identified. It establishes a procedure to require that property for which an exemption application is filed is properly assessed. The bill requires the reporting of leases of exempt real property to certain entities. It also amends various sections to reflect a previous change that requires filing of the exemption application with the county assessor instead of the county auditor.

This bill imposes reporting and rulemaking requirements on the Department of Local Government Finance (DLGF) concerning locally approved exemption applications. It withholds part of State Property Tax Replacement Fund distributions to a county if the county assessor fails to forward approved exemption applications to the DLGF. The bill also allows a refund for taxes payable in 2001 for certain churches or religious institutions.

**Effective Date:** (Amended) Upon Passage; July 1, 2003.

**Explanation of State Expenditures:** (Revised) Currently, county auditors must send a copy of all approved exemption applications to the DLGF and the DLGF must review them. This bill would require the DLGF to report the annual number of applications forwarded, the number investigated, and the number denied by the DLGF to the Legislative Services Agency by August 1<sup>st</sup> each year.

The DLGF would also be required to adopt rules regarding exempt property to provide just valuations and

ensure that assessments are made and recorded as otherwise required by law. The DLGF would also adopt rules regarding the timing of notifications that must be made when exempt property is leased to an entity that is not a non-profit organization, governmental entity, or an individual who leases a dwelling in a public housing project, nursing facility, assisted living facility, or affordable housing development.

The DLGF would complete these tasks with current resources.

**Explanation of State Revenues:** (Revised) The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The annual revenue reduction under this proposal would be minimal.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) *Land:* Under current law, up to 15 acres of land on which an exempt building is (or will be) situated are also exempt for most qualifying organizations. The current exceptions are educational institutions, which may exempt up to 150 acres, 4-H associations, which may exempt up to 200 acres, and tracts of land that were exempt on March 1, 1987, which may have up to 150 acres exempt.

This bill would remove all acreage limitations and allow the exemption for any amount of land that otherwise qualifies for the exemption. The exemption would also be extended to parking lots that serve exempt buildings and tracts of land up to 500 acres owned by a nonprofit entity established for land and water preservation. The removal of the acreage limitation would not apply to parsonages which would still be limited to 15 acres.

As stated above, under current law, a tract of land may qualify for an exemption even if no building exists on it. This is currently true if the owner demonstrates substantial progress towards the erection of the intended building within three years after the land is purchased and each year afterward. Under this bill, in addition to the substantial progress, the property owner would also have to actively pursue construction of the building.

*Predominant Use:* Under current law, property is predominantly used for a purpose or purposes if it is used for the purpose or purposes more than 50% of the assessment year. This bill would require the owner to identify the parts of the property that are used and not used for exempt purposes on the exemption application. Predominant use would then be determined for each part of the property.

*Assessment:* This bill would require a property owner to include a copy of the township assessor's property assessment record along with the exemption application. The county assessor would determine if the property is properly assessed and would direct the township assessor to make a proper assessment if not already properly assessed. If the applicant fails to include a copy of the assessment, the county assessor would notify the applicant that they have 30 days to comply. The bill requires the county property tax assessment board of appeals to deny an application if the property owner does not provide a copy of the assessment within the 30 day period. This provision would help build a better record of exempt property.

*Notification Compliance:* Under current law, county auditors must send a copy of all approved exemption applications to the DLGF. This bill would require the state to withhold state property tax replacement credit (PTRC) distributions that are attributable to the county reassessment fund if the county assessor fails to forward copies of the applications to the DLGF.

Currently, nonprofit entities must file a new exemption application in each even-numbered year. Under this provision, before May 16<sup>th</sup> of each even-numbered year, the county auditor would provide a list of all of the previous year's exemptions to the county assessor. The county assessor would return the list to the auditor by July 1<sup>st</sup> with notations of any action taken by the county property tax assessment board of appeals on that year's exemptions.

*Leases:* Under this proposal, exempt organizations that lease property to an entity other than a nonprofit corporation, governmental entity, or an individual who leases a dwelling in a public housing project, nursing facility, assisted living facility, or affordable housing development would be required to notify the county assessor of the lease. The county assessor would, in turn, notify the DLGF. Leased property that is used for a non-exempt purpose is not exempt from property tax under current law. This provision could help identify these properties and return the assessed value to the tax rolls.

*Refund:* The bill would allow a church or religious institution to file for a refund of property taxes paid in 2001 on up to 45 acres if the organization appealed to the former State Tax Board the county's denial of a land exemption and the organization paid the tax. This refund would be paid with no interest. Property tax refunds reduce the proceeds of current year taxes that are distributed to local civil taxing units and schools. Only one religious organization has been identified as meeting the refund criteria.

*Tax Shift Analysis:* In an effort to obtain information to estimate the impact of changing the exemption acreage limitations, LSA surveyed county auditors in August 2002. Responses to that survey were received from 39 of the 92 counties. The counties that responded reported that the number of acres of land owned by qualifying organizations exceeding the 15-acre limit in those counties is just over 14,000 acres and that the property tax payable in 2002 on that acreage was \$414,000. Seventeen counties reported no excess acreage and no tax due. The remaining reporting counties reported countywide tax due on this property ranging from a low of \$488 to a high of \$190,000, with half of the counties under \$5,000.

Some of the responses to this survey were incomplete and the responses to some questions were inconsistent with responses to others. These incomplete or inconsistent responses were excluded from the data used to impute statewide estimates. The survey also revealed that some counties grant exemptions for the total amount of land owned by the organization, regardless of the acreage cap imposed by the current statute.

Based on population and reported exemption levels from the county auditor abstracts, the statewide total acreage owned by tax exempt entities that exceeds the 15-acre limit is estimated at 40,000 to 45,000 acres and the 2002 property tax on that acreage is estimated at \$1.2 M to \$1.4 M. The post-reassessment tax on this property is estimated at \$700,000 to \$800,000, which would be shifted to other taxpayers if the acreage limit were completely removed. These shifts would begin with taxes paid in 2003. Some of the tax shifts could be partially mitigated if any assessed value is added back to the tax rolls under this bill for portions of property that are not being used for exempt purposes.

Total local revenues, except for cumulative funds, would remain unchanged in future years. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** County assessors; County auditors; Township assessors.

**Information Sources:** Beth Henkel, Commissioner, Department of Local Government Finance (232-3777); LSA Survey of County Auditors, August, 2002.

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